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Today

CONSUMER FINANCIAL SERVICES

Credit card affinity groups are getting bigger, despite evidence that this bank marketing trend has passed its peak of popularity. Researchers find that consumer response to solicitations is rapidly diminishing, but banks are trying to offset the lower response rates by defining the affinity groups more broadly. ——2

Institutions that sell private banking services to affluent customers have attracted the wrong people — most wealthy clients are more interested in low-cost loans than in high-priced services, according to Payment Systems Inc. ——2

Dollar Dry Dock Savings Bank, a White Plains, N.Y.-based thrift, has adopted an innovative retailing strategy and hired a manager with retail merchandising experience. ——6

Marketers in the financial services industry are increasingly turning to the wealth of computer-massaged demographic and psychographic information to serve existing customers and to identify new prospects. ——7

INSIDE

Hawaii's major utility has taken a big step into the financial services business by agreeing to acquire the state's second largest savings and loan association. Hawaiian Electric Industries Inc., parent of Hawaiian Electric Co., said it would pay $112 million for American Savings Bank. ——2

Some money center banks would have to set aside more than $2 billion to match the loan-loss reserves established by leading regionals to cover Third World debt, according to a study by the bank stock firm of Keefe, Bruyette & Woods Inc. ——3

Special provisions to offset potential losses on Third World debt hurt the fourth-quarter results of National Westminster Bank USA, New York, and the Bank of New England Corp., Boston. ——3

Bond-for-debt swap plans like the one envisioned by Mexico and J.P. Morgan & Co. must offer bankers more repayment guarantees if they are to succeed, according to the Brookings Institution. ——3

COMMENT

Marketing Management: To combat the rising cost of sending people to conferences, many banks are setting up their own in-house educational programs, writes consultant Michael P. Sullivan. ——4

KEEPING CURRENT

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Quote/Unquote

When you reach a point of saturation, I don't care what your plan is or how creative it seems, the odds are against you from the start.

Greg Spagna, president of Market Facts, on the decline of affinity card popularity. [Page 2]

Payment-System Glitch Complicated Stock Crash

Brady Report Cites Wire Transfer Shutdown as One Factor in Market Turmoil

By ROBERT M. GARSSON
Washington Bureau

WASHINGTON — On the day after Black Monday — when the financial system was on the verge of collapsing and huge amounts of cash were being shuttled between New York and Chicago — a critical link in the nation's funds-transfer system suddenly shut down for two hours.

The snafu occurred at a critical time: Billions of dollars were being moved out of New York to meet margin calls on Chicago's futures and options exchanges. The midday halt came at the height of the crisis, when chaotic trading was threatening to close the New York Stock Exchange.

The impact of the computer glitch is disputed. Federal Reserve officials are downplaying the incident. But the presidential commission appointed to study the market crash has suggested that the delay was one of several interruptions in the flow of funds to Chicago banks that contributed to problems in the market and could have led to default by one of the market's clearing houses.

Fed officials say the breakdown, which was brought to light in the commission's report, was triggered not by excessive volume, but by a bank that entered a lengthy electronic message — an instruction to transfer funds — into the central bank's Fed Wire system. That message unveiled a previously undetected glitch in the programs that run the Chicago Fed's computers. The Chicago link shut down Tuesday, Oct. 20, between 10 a.m. and 12:30 p.m. central time, just as the market turmoil was peaking.

Among many market factors cited by the commission's report were the Fed Wire breakdown and new central bank rules limiting intraday overdrafts in accounts banks hold at the Federal Reserve. These so-called daylight overdrafts occur when banks transfer customers' funds to other banks with the expectation that the deficits will be covered by incoming funds later in the day. The Fed has established a system of caps under which a bank's overdraft limit is determined by its capital and other factors.

The commission said that the overdraft caps nearly created "gridlock" in the payments system during the crisis.

Fed: Page 12 ➡

Citicorp Shuffles Staff Within Its Institutional Bank

By JED HOROWITZ

NEW YORK — Citicorp, barely pausing after reorganizing its investment bank, is engineering a number of changes in its corporate banking sector, known in company jargon as the institutional bank.

The changes, announced in an internal memorandum last Friday, center on the North American finance group, the corporate bank's most profitable division.

Jeffrey Grandy, 48, takes star billing in the reorganization, moving from the top spot at the bank's real estate industries group to lead its corporate and asset-based finance division. The unit, which has more than 1,500 staffers, in-

Citicorp: Page 10 ➡

Bank Firm Uses State Charter Loophole To Expand into Suburbs of Chicago

By ANDREA BENNETT
Midwest Bureau

CHICAGO — A Chicago bank holding company has circumvented statutory restrictions on branch banking by using an Illinois regulatory policy to expand its presence in suburban markets.

Exchange International Corp. is the first to use an Illinois provision that allows a bank holding company to buy a "less active" Illinois bank charter and relocate that bank elsewhere in the state.

Under the Illinois regulation, which applies only to state-chartered banks, one bank can purchase and assume most of the assets and liabilities of a second, which then has a less-active, but still operating, bank charter. That charter can, in essence, be put on the shelf and sold to another bank. Illinois regulators said there are no restrictions on where in the state a purchasing bank can move a bank charter.

Exchange, parent company of the $2.1 billion-asset Exchange National Bank, said Tuesday it bought the charter of the Farmers' State Bank of Sheffield in western Illinois and plans to use it to open a bank in Du Page County, a fast-growing Chicago suburban area.

"This is the first time that a less-active charter has been sold and [will be] reactivated," said William Conaghan, Illinois deputy banking commissioner. "I can assure you we will see more in the future."

Since mid-1986, when Illinois loos-

Loophole: Page 12 ➡

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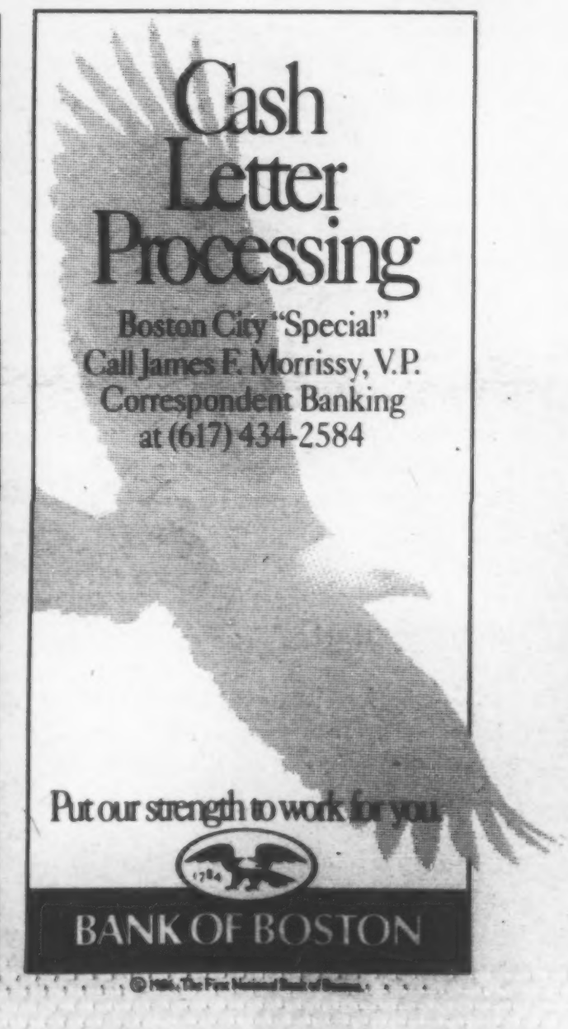

IN THE NEWS

Bank Fined on Boycott Rules

WASHINGTON — The Department of Commerce said it fined American National Bank and Trust Co., Chattanooga, Tenn., $33,000 for violating antiboycott provisions of the Export Administration Act. The act requires U.S. companies to report any requests for restrictive trade or boycotts. The department says American National failed to report promptly 22 receipts between January 1983 and June 1984 from Kuwait that asked the bank not to conduct business with Israel. American National agreed to pay the civil penalty but did not deny or admit the violations.

Chemical Officer in London Quits

LONDON — Chemical Bank's London-based managing director for international banking and corporate finance activities, John Howland-Jackson, is resigning to pursue other interests. Mr. Howland-Jackson joined Chemical in October 1986 from Kleinwort Benson Ltd., where he had been head of global capital market activities. Mr. Howland-Jackson was one of Chemical's two top operating officers in London.

Sources said the resignation was tied to pending changes in the business strategy of the London branch. Mr. Howland-Jackson could not be reached for comment.

Union Buys Stake in Bank

CHICAGO — Teamsters Local 705 has completed an agreement to purchase a 14% interest in Amalgamated Trust & Savings Bank, a $300 million-asset Chicago bank with strong union ties. The purchase price was not disclosed. Local 705, which represents truck drivers, oil drivers, filling station employees, and platform workers, will be Amalgamated's second largest stockholder.

Citibank Upgrades in Portugal

LONDON — Citibank is upgrading its Portuguese branch into a subsidiary with full commercial banking status to participate more fully in that country's capital markets, a spokesman said. The new bank, Citibank SA, has received approval from the Portuguese finance ministry and is scheduled to begin operations on Friday.

Citibank is the second U.S. bank to create a subsidiary with full banking status in Portugal, following Manufacturers Hanover SA, a unit of Manufacturers Hanover Corp.

Westinghouse Unit Buys Stock

CHICAGO — Westinghouse Financial Services has acquired 20% of the common stock of Mesirow Financial Holdings Inc., the two parties said. The terms were not disclosed. Westinghouse Financial is the parent of Westinghouse Credit Corp. of Pittsburgh, a diversified business finance company. Mesirow, based in Chicago, is a financial services and investment banking firm.

Pacific First Sells Mortgage Unit

TACOMA, Wash. — Pacific First Financial Corp. said it has agreed to sell its mortgage servicing operation in Walnut Creek, Calif., which has a $2.3 billion portfolio, to Commonwealth Mortgage America, Houston. The parent of Pacific First Federal Savings Bank and Pacific First Mortgage Corp. said the sale will generate about $33 million in cash.

— Compiled by Dennis P. O'Connell

Money Centers Lag in Loan-Loss Reserves

By JOHN P. FORDE

NEW YORK — Some money center banking companies would have to set aside more than $2 billion to match the loan-loss reserves established by leading regionals to cover Third World debt, according to a study by Keefe, Bruyette & Woods Inc.

For comparison, the study used Security Pacific Corp., Los Angeles, which has boosted its reserve to about 54% of its nontrade-related exposure to developing countries.

SecPac Makes Major Provision

On Monday, Security Pacific said fourth-quarter results would include a $350 million special provision in connection with loans to Third World countries.

The provision will result in a $40 million loss for the quarter, the company said, placing earnings at about $15 million for the year.

Combined with special provisions made previously — $558 million in the second quarter and $150 million in the third quarter — the latest action raises Security Pacific's reserve allocated to Third World debt to about $980 million.

The Keefe Bruyette study shows that several of the largest regional firms have higher percentages in reserves than Security Pacific. Others, such as Bank of Boston Corp., have similar percentages in reserve.

Money Centers About 25%

Money center banking companies have followed the lead of Citicorp, which raised its Third World loan-loss reserve in May to about 25% of its total LDC debt. At the time, Citicorp's move was hailed as a major breakthrough, signaling attempts to evaluate more realistically the actual risk posed by Third World loans.

According to the study, BankAmerica Corp., San Francisco, would have to set aside almost $3.1 billion to boost its reserve to 54% of its exposure. Citicorp would have to add $3 billion to its reserve to cover that percentage of its Third World debt.

Regional firms with reserves representing more than 54% of their nontrade-related Third World debt include Bank of New England Corp., Boston, and PNC Financial Corp., Pittsburgh. ■

Third World Loan-Loss Reserves

At major U.S. banks (millions of dollars)

	Total Nontrade LDC Exposure[1]	Existing LDC Reserve[1]	Actual Reserve Coverage Nontrade LDC Exposure[1]	Addl. Provision To Cover 54% Of Nontrade LDC Exposure[1]
Citicorp	$11,900	$3,432	29%	$2,994
BankAmerica	9,054	1,808	20	3,081
Chase Manhattan[7]	8,140	1,970	24	2,426
Manufacturers Hanover[3]	7,893	1,813	23	2,449
J.P. Morgan[4]	4,481	1,317	29	1,103
Bankers Trust[6]	4,000	1,000	25	1,160
Chemical[9]	3,963	1,505	38	635
First Chicago	2,325	930	40	326
Continental Illinois	2,048	660	32	446
Security Pacific	1,815	980	54	0
Wells Fargo	1,630	760	47	120
Irving Bank Corp.	1,615	289	18	583
Mellon Bank Corp.	1,375	620	45	123
First Republic[8 9]	1,360	304	22	430
First Interstate[6]	1,350	530	39	199
Bank of Boston	800	430	54	2
Norwest[8 9]	592	269	45	51
Republic New York[8]	487	100	21	163
Bank of New York	484	148	31	113
PNC Financial	400	240	60	(24)
First Bank System	264	145	55	(2)
Bank of New England	257	196	76	(57)
Manufacturers National	229	118	52	6
Mercantile Bancorp[8]	217	109	50	8
First Wachovia[8]	207	105	51	7
First Wisconsin[8]	195	108	55	(3)
National City Corp.	172	110	64	(17)
Riggs National[8]	106	47	44	11
NCNB Corp.[5]	105	54	51	3
Signet Banking Corp.[8]	97	58	59	(5)
Centerre Bancorp	87	45	52	2
Midlantic Corp.[8]	86	54	63	(8)
Fleet/Norstar Financial[8]	75	75	100	(35)
Huntington Bancshares[8]	68	33	48	4
Indiana National	67	37	55	0
First Kentucky National[8]	43	22	50	2
First Tennessee[8]	40	20	49	2

[1]Data used in calculations are net of previous (or intended in Bank of Boston's case) LDC chargeoffs.
[2]Reserve coverage ratios include previous LDC chargeoffs.
[3]LDC exposure includes short-term outstandings for the five largest Latin American countries only.
[4]LDC exposure includes short-term outstandings for Brazil, Mexico, and Argentina only; as of 12/31/86.
[5]NCNB has written down its Mexican debt by 56%; the remaining $54 million in LDC reserves is allocated solely against the debt from LDC countries other than Mexico. Hence the portion of Mexican debt which has not been charged off is not included in the current LDC exposure amount.
[6]LDC exposure includes short-term outstandings for Brazil and Mexico only.
[7]LDC exposure includes short-term outstandings for Brazil, Mexico, Argentina, and Venezuela only.
[8]LDC exposure figure includes trade-related debt. A breakdown on nontrade-related debt was not available.
[9]Existing LDC reserve data as of 6/30/87.

Source: Keefe, Bruyette & Woods Inc.

Loss Provisions Mar Results at NatWest And Boston Bank

By JOHN P. FORDE
and MICHAEL WEINSTEIN

Special provisions to offset potential losses on Third World debt hurt the results of National Westminster Bank USA, New York, and Bank of New England Corp., Boston, in the fourth quarter.

National Westminster lost $46.4 million in the fourth quarter because of a $75 million addition to its reserve against potential losses to countries with severe debt servicing problems.

Bank of New England Corp. on Wednesday reported a drop in fourth-quarter and yearly earnings compared to last year, because of special provisions in 1987 to cover possible loan losses to lesser-developed countries.

NatWest's loss compared with net income of $17.9 million for the fourth quarter of 1986. For all of 1987, NatWest lost $212 million, primarily because the company set aside $295 million against possible losses on lesser-developed-country loans during the

Loss Provisions: Page 10 ▶

Debt Swap Plans Need Guarantees To Attract Banks: Brookings Study

By JIM McTAGUE
Washington Bureau

WASHINGTON — Bond-for-debt plans like the one developed by Mexico and Morgan Guaranty Trust Co. must give bankers more repayment guarantees if they are to succeed, according to a paper released by the Brookings Institution.

Under the Morgan plan, Mexico would swap its debt at a discount for 20-year bonds collateralized by zero-coupon U.S. Treasuries. Creditor banks are expected to receive from 50 cents to 70 cents on the dollar for their loans if they participate in the plan.

Though banks would be assured of receiving the bonds' principal because of the collateral, interest payments would depend on Mexico's ability to service its debt, which might make bankers reluctant to buy the bonds, according to the authors of the paper, Jeffrey Sachs and Harry Huizinga, Harvard University economics professors.

The economists, who analyzed various proposals, suggest a program to allow banks to exchange foreign debt for a bond with the same face value but a below-market coupon rate. Such a swap would allow banks to avoid debt writedowns until they sold the bonds in the secondary market, they said.

Since the stock markets already have discounted bank stock to reflect Third World loans, bankers should be willing to swap the debt for a safer instrument, according to the paper from the independent research organization.

The swaps would be conducted through a facility of the World Bank or some other organization that would accept exit bonds from the debtor nations and at the same time swap its own bonds with debt held by commercial banks. The bank debts would be erased at that time.

Each creditor country would participate in the international debt facility in proportion to its banks' exposure in the problem countries. The costs to the creditor countries would be modest, the professors said.

U.S. banks held approximately $57 billion in claims against governments

Swap Plans: Page 10 ▶

MARKETING MANAGEMENT

Bringing Banker Education 'Within the Walls'

By MICHAEL P. SULLIVAN

THEY DON'T educate and train bankers like they used to. In fact, if you read this newspaper, you will find that a number of commercial banks take a different tack when looking at the organizational imperative to train and educate bankers. Assume for our purposes that banker education includes anything in the annual budget spent on classroom instruction -- banker schools, conferences and workshops, and annual conventions.

At a number of banks today, the party line is that the bank is in an austerity mode and attendance is being cut for bank employee attendance at external meetings. But, with recent trends in the industry, there may be a lot more to it than that. A lot of soul-searching is going on in the executive suites about the value of external meetings. The chief executive at one major regional bank says his organization is giving up attendance at national and regional meetings for at least a year.

After a one-year hiatus, bank employees will provide the organization with a report of what they and the bank missed by not attending the conference or school. The idea, a clever one for the bank seeking to cut expenses, is that bank employees will not have an adequate rationale for what their bank lost by not having them attend and they won't be able to justify attendance. The profitability of this bank could be enhanced by as much as a million dollars a year. Likely, bank employees will be hesitant to ask to go to meetings in the future.

Quite a number of banks have issued instructions to employees: If it doesn't contribute to the bottom line in the next six months, don't bother to ask. If this move by a few becomes commonplace, pity the banking associations that depend on high-return conferences to carry the many low-return services they offer. There could be more mergers among banking associations than among banks in 1988.

Quality education and training of bankers is performed by others, not just industry associations. A number of commercial enterprises provide banker educational programs. In fact, some of the best leading-edge educational formats and programs come from private firms, offered either as a mainline activity or as an adjunct to another business such as consulting, publishing, or information processing. They, too, are under pressure in this banking environment.

I call this emerging trend "banker education within the walls." It is easy to see why this form of intramural education is becoming popular. The cost of sending a banker halfway across the country to a banking school for two to three weeks over a period of several years can be sizable. So the bank creates its own school.

The Banc One College in Columbus, Ohio, is run twice a year for executive management of its operational units. Faculty for the two-week school are top-notch academicians and banking consultants. And, the bank doesn't stop there. Internal seminars are held for bank employees on popular subjects, such as sales management.

The benefit, as far as the bank is concerned, is that a greater number of its employees can be part of a significant educational process than could attend a national meeting. Even better, the programs can be specific to Banc One — a decided advantage, the bank believes.

Sovran Bank in Virginia conducts a 10-month fast-track program for its entry-level management associates, but with a new twist. The program is run for the bank by banking faculty members from Virginia Commonwealth University in Richmond. The program creates greater return for the bank because students work in teams on a significant banking project and at the end of the program they present solutions to senior bank executives.

Mellon's Approach

Mellon Bank, Pittsburgh, runs three levels of in-bank education. The first is corporate-wide and includes skills building. For its correspondent banks, it runs the Mellon Concentrated Course in Banking. The program for newly appointed officers of correspondent banks is a two-week residential course.

The second level is cross-departmental, sponsored by such groups as marketing. It conducts a forum twice a year to provide marketing education for its affiliate banks, especially for line bankers. A combination of inside and outside faculty are used.

At the third level, it runs job-specific, technologically based programs. Mellon's Master Trust University and Cash Management University are two programs that are widely publicized in the banking industry.

In addition, Mellon's physical facilities for in-bank programs are equipped with the latest in training resources, including video options.

First Union National Bank, Charlotte, N.C., believes that if you are going to develop a strong institutional sales culture, then you need to act like a strong national sales-driven organization. It conducts an annual sales conference for hundreds of bank employees that rivals national sales meetings by Avon, IBM, and Chevrolet for its intensity and motivational and informational content.

The popularity of in-bank training has led to the formation of a new trade association as a central reference location for bank trainers. The Association of Bank Trainers and Consultants, New York City, conducts conferences and forums and provides data and other information.

While banker education within the walls appears to be a growing phenomenon among mid- to large-size banks, it is not as popular among small banks that cannot afford a full-time staff. They seem to rely more on external bank trainers who provide training at the bank for employees or participating in programs conducted by the state banking association or other regionally based trainers.

Perhaps banking associations and other providers of in-residence training programs ought to look more closely at alternatives to traditional ways of delivering services, such as taking their schools "inside the walls" of a number of commercial banks. ■

Sullivan Says:

The cost of sending a banker halfway across the country to a banking school for two to three weeks over a period of several years can be sizable. So the bank creates its own school.

Mr. Sullivan is president of Michael P. Sullivan Associates, a marketing and communications consulting firm in Charlotte, N.C.

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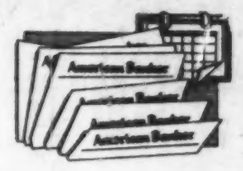
We need your views to be a true community newspaper.

FLASHBACKS

What made news in the *American Banker* this week...



40 Years Ago

• Chase National Bank's annual report revealed the bank handled the largest volume of business in its history in 1947. Chase's net earnings were $19.8 million, or $2.68 a share.

• The President's Economic Report to Congress commended leaders of the commercial banking system for their "far-sighted action" in curtailing an "inflationary expansion of bank credit."

20 Years Ago

• Credit card sales of banks participating in the national BankAmericard system amounted to $459 million in 1967, its first full calendar year of operation, according to Vern C. Richards, president of BankAmerica Service Corp.

• U.S. exports in 1967 rose 5.5% and imports rose 4.5%, boosting the U.S. trade surplus to $4.3 billion for the year.

10 Years Ago

• The Ford City Bank & Trust Co., Chicago, announced it would offer diamonds as interest on four-year savings certificates. The bank offered the gems unset at wholesale prices, and promised to "refund the deposit for any customer who is not satisfied, and to reimburse such a customer for the cost of the appraisal."

• The Federal Reserve Board was considering implementing its two-year-old proposal to permit automatic transfers between savings and checking accounts. The proposed regulation had sweeping competitive and political implications because it would allow customers of Fed member banks to receive interest on most checking account deposits.

• Saying his presence could be a "complicating distraction to a new chairman," Federal Reserve Board Chairman Arthur F. Burns told President Carter he would not continue as a Fed member beyond March 31.

• Bank stocks declined across a wide range following a general market trend led by the drop in the Dow Jones industrial average of 55.27 points over the week.

5 Years Ago

• Officials of 35 Western and Japanese banks established a private global organization to help lenders judge the creditworthiness of countries seeking loans. The Washington-based Institute of International Finance Inc. was to be funded solely by dues from banks wishing to use the organization's services.

• Most of the nation's largest banks dropped their prime rates to 11% from 11½% amid renewed optimism of lower market rates and an economic upturn that was expected to gather steam in the early part of the year.

• Century 21, the nationwide real estate brokerage firm, announced its entry into the financial services field with the establishment of subsidiaries for mortgage brokerage, property insurance, and sales of real estate limited partnerships.

• The financial community's ongoing battle against tax withholding provisions on interest and dividend income gained strength on Capitol Hill, where members of Congress were receiving hundreds of letters a day urging the repeal of a law that would require financial institutions to withhold 10% of investors' interest and dividends.

1 Year Ago

• The Supreme Court upheld the right of national banks to establish interstate brokerage branches, a decision bankers expected to encourage development of nationwide securities businesses by commercial banks.

• A federal appeals court denied a rehearing sought by the Securities and Exchange Commission to force banks to register their securities subsidiaries with the agency as broker-dealers. The decision reduced the burden of regulation that had deterred some banks from entering the discount brokerage business.

— Domenica Trevor